As of September 30, 2001 and 2000

Note 1.
Significant Accounting Policies

Reporting Entity

The Department of Health and Human Services consists of thirteen operating divisions (OPDIVs), which have diverse missions and programs. There are twelve financial reporting entities:

1. Administration on Aging (AoA)

2. Administration for Children and Families (ACF)

3. Agency for Healthcare Research and Quality (AHRQ)

4. Centers for Disease Control and Prevention (CDC)/Agency for Toxic Substances and Disease Registry (ATSDR)

5. Centers for Medicare & Medicaid Services (CMS)

6. Food and Drug Administration (FDA)

7. Health Resources and Services Administration (HRSA)

8. Indian Health Service (IHS)

9. National Institutes of Health (NIH)

10. Office of the Secretary (OS)

11. Program Support Center (PSC)

12. Substance Abuse and Mental Health Services Administration (SAMHSA)

In FY 2001, the Health Care Financing Administration was renamed the Centers for Medicare & Medicaid Services (CMS). The Agency for Toxic Substances and Disease Registry is combined with the Centers for Disease Control and Prevention for financial reporting purposes; therefore, these footnotes will refer to them as one OPDIV. In FY 2001, ten of the twelve OPDIVs listed received full scope audits, while the remaining two, AHRQ and OS, were reviewed as part of the Departmental consolidated audit. Each OPDIV is considered a responsibility segment for purposes of preparing the HHS-wide Statement of Net Cost.

Basis of Presentation

The financial statements have been prepared to report the financial position and results of operations of HHS as required by the Chief Financial Officers Act of 1990, and amended by the Government Management Reform Act of 1994. They have been prepared from Departmental records in accordance with the form and content guidance of OMB Bulletin No. 97-01 (as amended) as well as with certain provisions under OMB Bulletin No. 01-09, and generally accepted accounting principles for the federal government. These statements are therefore different from financial reports prepared pursuant to other OMB directives that are primarily used to monitor and control HHS' use of budgetary resources.

The financial statements consolidate the balances of about one hundred and forty discrete appropriations and fund accounts, and a number of accounts used for suspense, collection of receipts and general governmental functions. Material intra-HHS balances have been eliminated in the consolidation of the

The financial statements consolidate the balances of about one hundred and forty discrete appropriations and fund accounts.

account balances from the financial statements of HHS' twelve OPDIVs, each of which is issued under separate cover. The effects of intra-entity transactions are eliminated in the presentation of the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position and the Consolidated Statement of Financing, except for the Statement of Budgetary Resources, which is presented on a combined basis. Supplemental information is accumulated from the OPDIV reports, regulatory reports and other sources within HHS. Information is generally presented herein on a summary level, hence greater detail on OPDIV programs and activities is found in the annual reports prepared by the OPDIVs.

The FY 2000 Consolidated Balance Sheet has been restated to separately report $6,561 million in prior year Anticipated Congressional Appropriation for CMS. This amount was previously reported under "Other Assets" and comprised 99.4 percent of Other Assets. If this line were to be combined with Other Assets for FY 2001, it would comprise 99.2 percent. Note 10, "Other Assets" describes this amount in detail.

Basis of Accounting

For most HHS programs, transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to the receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. The cash basis is used by CMS for Medicare benefit payments and Medicaid Program draws by states to cover current quarter expenses, and a number of other OPDIV programs. For these programs, an accrual method adjustment is made by recording year-end estimates of unpaid liabilities.

Entity and Non-Entity Assets

Entity assets are those assets which the reporting entity holds and has the authority to use in its operations. Non-entity assets are assets the entity holds but does not have the authority to use. An example of non-entity assets is Child Support Enforcement collections, which ACF collects for the U.S. Government but does not have authority to spend. The HHS financial statements do not report entity and non-entity assets separately on the face of the statements, but instead break out entity and non-entity in the footnotes. Note 2 "Fund Balance with Treasury," Note 4 "Accounts Receivable, Net," Note 7 "Cash and Other Monetary Assets," and Note 10 "Other Assets" report entity and non-entity assets, if any, for the Department.

Fund Balance with Treasury

The Department maintains all cash accounts with the Treasury Department. The account, "Fund Balance with Treasury," represents appropriated, revolving, trust, and other funds available to pay current liabilities. The U.S. Treasury processes cash receipts and disbursements for HHS.

Investments

Trust fund balances in excess of current needs are invested in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States.

Accounts Receivable

Accounts Receivable is amounts owed to the Department by other federal agencies and by the public. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts. The allowance for loss is based on past collection experience and/or an analysis of the outstanding balances. Accounts receivable also includes interest due to the Department other than interest on direct loans and loan guarantees.

Loans Receivable

Loans are accounted for as receivables after funds are disbursed. In accordance with credit reform legislation, for loans obligated prior to October 1, 1991, loan principal, interest, and other costs are reduced by an allowance for loss based on historical data and current market factors. For loans obligated on or after October 1, 1991, the amount of gross loans receivable is reduced by an allowance equal to the present value of the subsidy costs associated with these loans. Loans receivable also includes interest due to the Department for direct loans and/or defaulted loan guarantees.

Advances to Grantees/Accrued Grant Liability

Advances to Grantees are cash outlays made by the Department to its grantees. An accrued grant liability occurs when the year-end grant accrual for the Department exceeds advances to grantees outstanding at year-end. Progress payments on work in process are not included in grants. HHS grant programs are classified into two categories: "Programs Not Subject to the Expense Accrual" and "Programs Subject to the Expense Accrual."

Programs Not Subject to the Expense Accrual: These programs are formula grants under which states provide a variety of services or payments to individuals and federal agencies that are precluded from requiring expense reporting. Under these formula grants, states receive a fixed sum pursuant to authorizing legislation and draw down based on cash needs. Accordingly, these programs operate on an allocation basis as opposed to a reimbursable basis. Therefore, they are not subject to an expense accrual.

Programs Subject to the Expense Accrual: For programs subject to the accrual, grantees draw funds (recorded as Advances to Grantees in HHS' accounting systems) as bills or salary payments come due. The grantee pays the bills or salary and reports the payments to HHS quarterly on the SF 272 (recorded as an expense and a reduction to the advance balance in the accounting systems). Some of the OPDIVs use actual grant payments when this data is available. Other OPDIVs use a process adopted by HHS to estimate a year-end grant accrual relying on historical spending patterns to predict unreported grantee expenditures. The method breaks the accrual down into two components.

The first component represents the amount of expenditures expected to be reported by grantees for the fourth quarter ending September 30. It is calculated with a data regression model, which uses historical grantee advance and expenditure data. HHS auditors have verified the regression analysis model and have accepted the approach.

To estimate the second component, expenses Incurred But Not Reported (IBNR), HHS gathered information on spending patterns from four different groups of grantees to determine if they had unreported expenses at year-end and if so, in what amounts. As a result, HHS determined that grantees typically had year-end IBNR equal to approximately two weeks of annual expenditures. Together, the estimated amount of expenditures expected to be reported by grantees for the fourth quarter ending September 30th and the estimated IBNR represent the total amount reported for HHS for accrued grants. (Refer to Note 6 "Accrued Grant Liability")

Advances other than grant advances are reported in Note 10 "Other Assets."

Inventory and Related Property

Inventory and Related Property includes: Inventories Held for Sale, Operating Materials and Supplies, and Stockpile Materials. Inventories Held for Sale (Inventories) consists of small equipment and supplies held by the various OPDIV Service and Supply Funds for sale to HHS components and other federal entities. Operating Materials and Supplies (OMS) consist of pharmaceuticals, biological products, vaccines, and other medical supplies, which are used in providing medical services and conducting medical research in the various OPDIVs. Stockpile materials represent supplies of biological materials and vaccines held for use in case of a national emergency. All inventory are recorded as assets when purchased, and expensed when they are consumed or sold. Inventories may be recorded at either: 1) historical cost (or a method which reasonably approximates historical cost), or 2) the lower of cost (using weighted-average cost method) or market. All inventories are recorded at historical cost.

General Property, Plant and Equipment

The basis for recording purchased General Property, Plant and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to a form and location suitable for its intended use. The cost of PP&E acquired under a capital lease is the amount recognized as a liability for the capital lease at its inception. The cost of PP&E acquired through donation is the estimated fair value when acquired. The cost of PP&E transferred from other federal entities is the net book value of the transferring entity. All PP&E with an initial acquisition cost of $25,000 or more and an estimated useful life of two (2) years or greater are capitalized. PP&E are depreciated using the straight-line method over the estimated useful life of the item. Land and land rights, including permanent improvements, are not depreciated. Normal maintenance and repair costs are expensed as incurred.

Liabilities

Liabilities are recognized for amounts of probable future outflows or other sacrifices of resources as a result of past transactions or events. Since HHS is a component of the U.S. Government, a sovereign entity, its liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the sovereign entity. In accordance with Public Law and existing federal accounting standards, no liability is recognized for future payments to be made on behalf of current workers contributing to the Medicare Hospital Insurance (HI) Trust Fund, since future Medicare benefits are not tied to prior Medicare contributions.

Liabilities Covered by Budgetary Resources are those liabilities funded by available budgetary resources including: (1) new budget authority, (2) spending authority from offsetting collections, (3) recoveries of unexpired budget authority, (4) unobligated balances of budgetary resources at the beginning of the year, and (5) permanent indefinite appropriation or borrowing authority.

Liabilities Not Covered by Budgetary Resources are incurred when funding has not yet been made available through Congressional appropriations or current earnings. HHS recognizes liabilities for employee annual leave earned but not taken, and amounts billed by the Department of Labor for Federal Employees Compensation Act (FECA) disability payments. Also included in this category is the actuarial FECA liability determined by Labor but not yet billed. For HHS revolving funds, all liabilities are funded as they occur.

"Liabilities Covered by Budgetary Resources" and "Liabilities Not Covered by Budgetary Resources" are combined on the balance sheet. The breakout of these resources is presented in Note 11 "Accounts Payable," Note 12 Entitlement Benefits Due and Payable," Note 13 "Environmental and Disposal Costs," Note 16 "Accrued Payroll and Benefits," and Note 17 "Other Liabilities."

Accounts Payable

Accounts Payable consists of amounts due for goods and services received, progress in contract performance, interest due on accounts payable, and other miscellaneous payables.

Entitlement Benefits Due and Payable

Entitlement Benefits Payable represents benefits due and payable to the public from entitlement programs enacted by law. In HHS the largest entitlement programs, which comprise the bulk of HHS entitlement spending, are the CMS programs. The ACF administers a number of entitlement benefit programs. The larger programs are Temporary Assistance to Needy Families (TANF), Social Services Block Grant, and Child Support Enforcement.

Federal Employee and Veterans' Benefits

Federal Employee and Veterans' Benefits consist of the actuarial portions of future benefits earned by federal employees and veterans, but not yet due and payable. These costs include pensions, other retirement benefits, and other post-employment benefits. These benefits programs are normally administered by the Office of Personnel Management (OPM) and not by the Department of Health and Human Services, or any of the individual operating divisions of the Department. Therefore, HHS does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. HHS does, however, recognize the imputed cost and imputed financing related to these benefits in the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position, respectively.

The lone exception to this policy is the Public Health Service (PHS) Commissioned Corps Retirement System. The HHS-administered PHS Commissioned Corps Retirement System is discussed in Note 15, "Federal Employee and Veterans' Benefits."

<u>Pensions:</u> Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other termination of employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most HHS employees participate in the Civil Service Retirement System (CSRS) or the Federal Employee Retirement System (FERS). Under CSRS, HHS makes matching contributions equal to 8.51 percent of basic pay. For FERS employees, HHS contributes the employer's matching share for Social Security and contributes an amount equal to one percent of employee pay to a savings plan and matches up to an additional four percent of pay. Most employees hired after December 31, 1983 are covered by FERS. The OPM reports on CSRS and FERS assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to federal employees.

<u>Other Retirement Benefits (ORB):</u> Retirement benefits other than pensions include all forms of benefits to

retirees or their beneficiaries provided outside the pension plan. Examples include health and life insurance. Retirement health care benefits are the primary ORB expense.

Other Post-employment Benefits (OPEB): Post-employment benefits other than pensions include all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Inactive employees are those who are not currently rendering services to their employers and who have not been terminated, but who are not eligible for an immediate annuity, including those temporarily laid off or disabled. OPEB includes salary continuation, severance benefits, counseling and training, continuation of health care or other benefits, and unemployment and workers' compensation benefits paid by the employer entity.

Accrued Payroll and Benefits

"Accrued Workers Compensation (including FECA)" is for an amount due to former or inactive employees and beneficiaries. This can include salary continuation, severance benefits, counseling, and funded unemployment liability for federal employees.

"Accrued Payroll and Leave" is the estimated liability for salaries, wages, funded annual leave and sick leave that has been earned but is unpaid.

"Payroll Withholding" is the amounts withheld from employees' salary for taxes, employee benefit contributions and the employers' portion of payroll taxes and benefit contribution, such as retirement, Thrift Saving Plan and health and life insurance.

"Liability for Pension Benefits for Administering Agency" is the amounts due from administering agencies to eligible federal civilian or military employees or their beneficiaries, to benefit carriers for providing health insurance and for life insurance due to eligible beneficiaries. HHS is an administering agency for the commissioned corps. This is not an actuarial liability.

"Other" covers the amounts of unfunded employment related liabilities not covered by the current year's budget authority and not otherwise classified above.

Obligations Related to Cancelled Appropriations

Payments may be required of up to one percent of current year appropriations for valid obligations incurred against prior year appropriations that have been cancelled. The total payments related to cancelled appropriations is estimated to be $1,197 million and $571 million as of September 30, 2001 and 2000, respectively.

Revenues and Other Financing Sources

Funding for the Department is classified as revenue or other financing sources. Revenue is an inflow of resources that the government demands, earns, or receives by donation. Revenue comes from two sources: exchange transactions and nonexchange transactions. Exchange revenues arise when a government entity provides goods and services to the public or to another government entity for a price. Another term for "exchange revenue" is "earned revenue." Nonexchange revenue arises primarily from exercise of the government's power to demand payments from the public (e.g., taxes, duties, fines, and penalties), but also includes donations received. Other Financing Sources include appropriations used, transfers of assets from other government entities, and imputed financing.

Other Financing Sources: Congressional appropriations are the primary funding source for most of the Department's programs. For financial statement purposes, appropriations used are recognized as a financing source as expenses are incurred.

Imputed financing consists of costs incurred by one federal entity, which are paid for by another federal entity. OMB has limited the imputed costs to be recognized by federal agencies to the following: (1) employee's pension benefits, (2) the health, life insurance, and other benefits for retired employees, (3) other post-employment benefits for retired, terminated, and inactive employees, which include severance payments, training and counseling, continued health care, and unemployment and workers' compensation under the FECA, and (4) losses in litigation proceedings (FASAB Interpretation No.2, Accounting for Treasury Judgement Fund transactions).

Nonexchange Revenue: Nonexchange revenues include income taxes, excise taxes, duties, fines, penalties, and other inflows of resources arising from the government's power to demand payments, as well as voluntary donations. Nonexchange revenue is recognized when a reporting entity establishes a specifically identifiable, legally enforceable claim to cash or other assets. It is recognized to the extent that the collection is probable and the amount is measurable. Nonexchange revenue is reported in the Consolidated Statement of Changes in Net Position.

Medicare's Hospital Insurance program, also known as HI or Medicare Part A, is financed through the HI Trust Fund, whose revenues come primarily through the Medicare portion of payroll and self-employment taxes collected under the Federal Insurance Contribution Act (FICA) and Self-Employment Contribution Act (SECA). The Medicare payroll tax rate was 2.9 percent of annual wages. Employees and employers were each required to contribute 1.45 percent of employees' wages, with no limitation, to the HI Trust Fund. Self-employed individuals paid the full 2.9 percent themselves.

Medicare's Supplemental Medical Insurance program, also known as SMI or Medicare Part B, is financed primarily by general fund appropriations (Payments to the Health Care Trust Funds) provided by Congress and by monthly premiums paid by beneficiaries. Premium payments from Medicare beneficiaries are matched approximately 3 to 1 by Congressional appropriations. Interest revenue on investments is recognized as it is earned.

<u>Exchange Revenue:</u> Revolving funds recognize exchange revenue at the time goods or services are provided to the public or to another government entity. Reimbursable service agreements between HHS and other federal agencies generally recognize these revenues when the related expenses are incurred. Various user fees are collected to offset the cost of providing services. Exchange revenue is reported in the Consolidated Statement of Net Cost.

Contingencies

A contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible gain or loss to the Department. The uncertainty will ultimately be resolved when one or more future events occur or fail to occur. With the exception of pending, threatened or potential litigation, a contingent liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is more likely than not, and the related future outflow or sacrifice of resources is measurable. For pending, threatened or potential litigation, a liability is recognized when a past transaction or event has occurred, a future outflow or other sacrifice of resources is likely to occur, and the related future outflow or sacrifice of resources is measurable.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Intragovernmental Relationships and Transactions

In the course of its operations, HHS has relationships and financial transactions with numerous federal agencies. The more prominent of these are with the Social Security Administration (SSA) and the Department of the Treasury. The SSA determines eligibility for Medicare programs, and also allocates a portion of Social Security benefit payments to the Medicare Part B Trust Fund for Social Security beneficiaries who elect to enroll in the Medicare Part B program. The Treasury receives the cumulative excess of Medicare receipts and other financing over outlays, and issues interest-bearing securities in exchange for the use of those monies. At the government-wide level, the assets related to the trust funds on HHS' financial statements and the corresponding liabilities on the Treasury's financial statements should be eliminated.

For FY 2001 and FY 2000, HHS calculated intra-departmental eliminations by employing the same methodology used by Treasury's Financial Management Service (FMS) in reporting intra-entity eliminations. Under the Treasury FMS method, all intra-entity asset, liability, revenue, and expense amounts reported in HHS statements will be eliminated, and any offsetting balance will be reported as an elimination to Net Position under the heading "Unreconciled Transactions Affecting Net Position" on the Consolidated Statement of Changes in Net Position.

Unless otherwise stated, footnotes are presented in millions of dollars.

Note 2. Fund Balance With Treasury

HHS' undisbursed account balances at September 30, 2001 and 2000, are listed below by fund type. Other Funds include balances in deposit, suspense, clearing and related non-spending accounts.

	2001			2000		
	Entity Assets	Non-entity Assets	Total	Entity Assets	Non-entity Assets	Total
Trust Funds	$ 508	$ -	$ 508	$ 3,424	$ -	$ 3,424
Revolving Funds	752	-	752	667	-	667
Appropriated Funds	79,358	-	79,358	73,695	-	73,695
Other Funds	286	45	331	290	17	307
Total	**$ 80,904**	**$ 45**	**$ 80,949**	**$ 78,076**	**$ 17**	**$ 78,093**

Note 3. Investments, Net

HHS invests trust fund cash that is in excess of current needs in U.S. Treasury securities. The U.S. Treasury Department is HHS' agent and advisor for investing. The majority of HHS' investments in securities are held to maturity and no provision is made for unrealized gains or losses. Investments at September 30, 2001 and 2000 are summarized below. All investments are classified as Intragovernmental Securities.

At September 30, 2001: *Intragovernmental Securities:*	Cost	Unamortized Premium (Discount)	Investments, Net	Other Adjustments	Market Value Disclosure
Marketable	$ 22	$ -	$ 22	$ -	$ 22
Non-Marketable: Par Value	239,115	-	239,115	(1)	239,114
Non-Marketable: Market-Based	1,762	56	1,818	-	1,818
Subtotal	**240,899**	**56**	**240,955**	**(1)**	**240,954**
Accrued Interest	3,977	-	3,977	-	3,977
Total, Intragovernmental	**$ 244,876**	**$ 56**	**$ 244,932**	**$ (1)**	**$ 244,931**

At September 30, 2000: *Intragovernmental Securities:*	Cost	Unamortized Premium (Discount)	Investments, Net	Other Adjustments	Market Value Disclosure
Marketable	$ 1,598	$ 9	$ 1,607	$ -	$ 1,607
Non-Marketable: Par Value	213,934	-	213,934	-	213,934
Non-Marketable: Market-Based	-	-	-	-	-
Subtotal	**215,532**	**9**	**215,541**	**-**	**215,541**
Accrued Interest	3,632	-	3,632	-	3,632
Total, Intragovernmental	**$ 219,164**	**$ 9**	**$ 219,173**	**$ -**	**$ 219,173**

CMS invests in U.S. Treasury Special Issues that are special public obligations for exclusive purchase by the Medicare trust funds. Special issues are always purchased and redeemed at face value. Certificates are short term and pay 5 1/8 to 5 5/8 percent. The bond interest rates range from 5 5/8 to 9 1/4 percent. The accrued interest receivable as of September 30, 2001 was $3,977 million.

HRSA's Vaccine Injury Compensation Trust Fund (VICP) funds are invested in market-based (MK) special securities and One-Day Certificates. These non-marketable MK securities are Treasury securities that are not traded on any securities exchange but mirror the prices of marketable securities with similar terms. Currently, securities held by the VICP will mature in fiscal years 2002, 2004, 2006, and 2008.

NIH invests trust fund cash that is in excess of current needs in U.S. Treasury securities.

Note 4. Accounts Receivable, Net

HHS' accounts receivable at September 30, 2001 and 2000, are summarized below.

At September 30, 2001: *Intragovernmental*	Accounts Receivable, Principal	Interest Receivable	Accounts Receivable, Gross	Allowance	Net OPDIV Receivables, Combined	Intra-OPDIV Eliminations	Net OPDIV Receivables, Consolidated	Inter-OPDIV Eliminations	Net HHS Receivables Consolidated
Entity	$ 5,123	$ 10	$ 5,133	$ -	$ 5,133	($4,270)	$ 863	($78)	$ 785
Non-Entity	122	-	122	-	122	-	122	-	122
Total, Intragovernmental	**$ 5,245**	**$ 10**	**$ 5,255**	**$ -**	**$ 5,255**	**($4,270)**	**$ 985**	**($78)**	**$ 907**
With the Public									
Entity									
Medicare	$ 7,522	$ -	$ 7,522	($4,428)	$ 3,094	$ -	$ 3,094	$ -	$ 3,094
Other	1,267	-	1,267	(230)	1,037	-	1,037	-	1,037
Non-Entity	6	568	574	(540)	34	-	34	-	34
Total, With the Public	**$ 8,795**	**$ 568**	**$ 9,363**	**($5,198)**	**$ 4,165**	**$ -**	**$ 4,165**	**$ -**	**$ 4,165**
At September 30, 2000: *Intragovernmental*									
Entity	$ 2,328	$ 6	$ 2,334	($1)	$ 2,333	($21)	$ 2,312	($119)	$ 2,193
Non-Entity	-	-	-	-	-	-	-	-	-
Total, Intragovernmental	**$ 2,328**	**$ 6**	**$ 2,334**	**($1)**	**$ 2,333**	**($21)**	**$ 2,312**	**($119)**	**$ 2,193**
With the Public									
Entity									
Medicare	$ 7,993	$ -	$ 7,993	($4,280)	$ 3,713	$ -	$ 3,713	$ -	$ 3,713
Other	200	-	200	(39)	161	-	161	-	161
Non-Entity	14	490	504	(417)	87	-	87	-	87
Total, With the Public	**$ 8,207**	**$ 490**	**$ 8,697**	**($4,736)**	**$ 3,961**	**$ -**	**$ 3,961**	**$ -**	**$ 3,961**

CMS' Medicare receivables are primarily due to overpayments to providers, beneficiaries, physicians and suppliers, and to claims where Medicare should be the secondary payer.

HHS non-entity receivable balances represent amounts that cannot be used by HHS once collected. Such receipts are transferred to the General Fund of the Department of the Treasury.

The allowance for loss on accounts receivable is based upon analytical procedures on both individual and group bases. Individual analysis considers the debtor's ability and willingness to pay, payment record, and probable recovery of amounts from secondary sources (i.e., liens, and garnishments). To estimate allowance for loss by groups, HHS stratifies receivables into groups exhibiting similar characteristics. Estimated losses are projected based upon statistical sampling or historical loss experience. The allowance is periodically reviewed and adjusted.

Note 5. Loans Receivable, Net

Loans receivable are included for HRSA's Health Education Assistance Loan (HEAL) guaranteed loan program. The gross receivable amount represents defaulted loans, which have been paid to lenders under the guarantee, and include principal and interest. HRSA's Health Center program is similar to the HEAL program, but it guarantees the principal and interest on loans made by non-federal lenders to health centers funded for the costs of developing and operating managed care networks or plans.

HHS' loans receivable at September 30, 2001 and 2000, are summarized below.

September 30, 2001: *Loan Program* *HEAL Loans (HRSA)*	Loans Receivable, Principal	Interest Receivable	Loans Receivable, Gross	Allowance	Loans Receivable, Net
Pre-1992 Loans	$496	$13	$509	($134)	$375
Post-1991 Loans	65	2	67	(15)	52
Subtotal	**$561**	**$15**	**$576**	**($149)**	**$427**
Other					
Pre-1992 Loans	-	-	-	-	-
Post-1991 Loans	4	-	4	(4)	-
Total	**$565**	**$15**	**$580**	**($153)**	**$427**
September 30, 2000:					
HEAL Loans (HRSA)					
Pre-1992 Loans	$497	$15	$512	($134)	$378
Post-1991 Loans	56	1	57	(12)	45
Subtotal	**553**	**16**	**569**	**(146)**	**423**
Other					
Pre-1992 Loans	-	-	-	-	-
Post-1991 Loans	4	-	4	-	4
Total	**$557**	**$16**	**$573**	**($146)**	**$427**

In the FY 2000 HHS Accountability Report, the "Other" category of loans receivable valued at $4 million was erroneously reported as "Pre-1992 loans," instead of "Post-1991 loans." It is correctly classified in this year's report.

Note 6. Accrued Grant Liability

Grant advances are liquidated upon the grantee's reporting of expenditures on the quarterly SF-272 Report (Federal Cash Transaction Report). In many cases, these reports are received several months after the grantee actually incurs the expense, resulting in an understated grant expense in the financial statements. To mitigate this, HHS developed Department-wide procedures used by its OPDIVs to estimate and accrue amounts due grantees for their expenses, both realized and accrued, through September 30, 2001. Some OPDIVs use actual data when available.

At fiscal year-end when OPDIVs record the estimated accrual for amounts due to grantees for their expenses, if the amount of outstanding advances exceeds the amount of the accrual, the OPDIV reports an asset entitled "Advances to Grantees." Otherwise, the OPDIV reports a liability called “Accrued Grant Liability” equal to the amount that the accrual exceeds the outstanding advances.

HHS' net grant advances at September 30, 2001 and 2000 are summarized below.

	2001	2000
Grant Advances Outstanding (before year-end grant accrual)	$ 12,609	$ 13,612
Less: Estimated Accrual for Amounts Due to Grantees	(15,684)	(15,455)
Accrued Grant Liability	$ (3,075)	$ (1,843)

All advances other than grant advances are reported in the “Other Asset” category. The detail of these advances is shown in Note 10.

Note 7. Cash and Other Monetary Assets

Cash and Other Monetary Assets are the total amount of time account balances at the Medicare contractors' commercial banks. The Checks Paid Letter-of-Credit method is used for reimbursing Medicare contractors for the payment of covered Medicare services. Medicare contractors issue checks against a Medicare Benefits account maintained at commercial banks. In order to compensate commercial banks for handling the Medicare Benefits accounts, Medicare funds are deposited into non-interest-bearing time accounts. The earnings allowances on the time accounts are used to reimburse the commercial banks. The account balance in FY 2001 was $137 million and in FY 2000 the balance was $61 million.

Note 8. Inventory and Related Property, Net

HHS' inventory and related property, net at September 30, 2001 and 2000 are summarized below.

	2001	2000
Inventory Held for Sale:		
Inventory Held for Current Sale	$ 27	$ 24
Total, Inventory Held for Sale	**$ 27**	**$ 24**
Operating Materials and Supplies (OMS):		
OMS Held for Use	$ 10	$ 8
OMS Reserved for Future Use	8	13
Excess, Obsolete or Unserviceable OMS	-	(5)
Total, Operating Materials and Supplies	**$ 18**	**$ 16**
Stockpile Materials (SM):		
SM Held for Emergency or Contingency	$ 22	$ 23
Total, Stockpile Materials	**$ 22**	**$ 23**
Inventory and Related Property, Gross	$ 67	$ 63
Less: Allowance for Loss/Obsolescence/Spoilage	-	-
Inventory and Related Property, Net	**$ 67**	**$ 63**

HHS inventories are comprised of inventory held for sale, operating materials and supplies used in general operations, and stockpile materials. Inventories are valued at historical cost. Inventory items are classified into appropriate categories, when received, based upon U.S. Standard General Ledger definitions derived from Statement of Federal Financial Accounting Standard (SFFAS) No.3, Accounting for Inventory and Related Property.

CDC is mandated by law to maintain vaccine stockpiles to meet unanticipated needs for the vaccines, and for use in national emergencies. Vaccine stockpiles are maintained by the vaccine manufacturers and consist of several types of vaccines. CDC may only sell these vaccines to state, local, or territorial health departments.

NIH has an inventory of materials to support their day-to-day activities. The PSC, through its Perry Point Supply Service Center, maintains an inventory of pharmaceutical items for sale to HHS components and other federal agencies.

Note 9. General Property Plant and Equipment, Net

Major categories of HHS Property, Plant and Equipment at September 30, 2001 and 2000 are listed below.

	2001					2000
	Depreciation Method	Estimated Useful Lives	Acquisition Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land and Land Rights	N/A	N/A	$ 48	$ -	$ 48	$ 48
Improvements to Land	Straight Line	5-20 Yrs	-	-	-	-
Construction in Progress	N/A	N/A	649	-	649	480
Buildings, Facilities and Other Structures	Straight Line	15-40 Yrs	2,249	(1,043)	1,206	1,142
Equipment	Straight Line	3-20 Yrs	791	(399)	392	350
Internal Use Software	Straight Line	Various	21	(10)	11	-
Assets Under Capital Lease	Straight Line	Life of Lease	32	(7)	25	26
Leasehold Improvements	Straight Line	Life of Lease*	-	-	-	-
Totals			**$3,790**	**$(1,459)**	**$2,331**	**$2,046**

*7 to 15 years or life of lease.

See the disclosure *Deferred Maintenance* in the Required Supplementary Information section for information on deferred maintenance for General PP&E.

Accounting for Internal Use Software was instituted in fiscal year 2001 in compliance with the FASAB Accounting Standard No. 10, *Accounting for Internal Use Software*.

Note 10. Other Assets

Other Assets at September 30, 2001 and 2000 are comprised of the following, all of which are considered entity assets.

	2001	2000
Intragovernmental		
Advances to Other Federal Entities	$ 272	$ 116
Prepayments and Deferred Charges	-	1
Anticipated Congressional Appropriations–CMS	11,166	6,561
Other	13	13
OPDIV Combined, Intragovernmental	$11,451	$ 6,691
Less: Intra-OPDIV Eliminations	(187)	(89)
OPDIV Consolidated, Intragovernmental	11,264	6,602
Less: Inter-OPDIV Eliminations	(4)	-
HHS Consolidated, Intragovernmental	**$11,260**	**$ 6,602**
With the Public		
Prepayments and Deferred Charges	$ 5	$ 4
Travel Advances and Emergency Employee Salary Advances	2	2
Other	-	12
HHS Consolidated, With the Public	**$ 7**	**$ 18**

Anticipated Congressional Appropriation • CMS has recorded an $11,166 million Anticipated Congressional Appropriation to cover liabilities incurred as of September 30, 2001 by the Medicaid program and the Payments to Health Care Trust Funds appropriation as discussed at right and below.

Medicaid	$ 6,944
Payments to the Health Care Trust Funds	
SMI	1,592
HI	2,630
Total	**$ 11,166**

Medicaid • Beginning in FY 1996, CMS has accrued an expense and liability for Medicaid claims Incurred But Not Reported (IBNR) as of September 30th. In FY 2001, the IBNR expense exceeded the available unexpended Medicaid appropriations in the amount of $6,944 million.

A review of the appropriation language by CMS' Office of General Counsel has resulted in a determination that the Medicaid appropriation's indefinite authority provision allows for the entire IBNR amount to be reported as a funded liability. Consequently, CMS has recorded a $6,944 million anticipated appropriation in FY 2001 for IBNR claims that exceeded the available appropriation.

Payments to the Health Care Trust Funds • The Supplementary Medical Insurance (SMI) program is financed primarily by the general fund appropriation, Payments to the Health Care Trust Funds, and by monthly premiums paid by beneficiaries. Section 1844 of the Social Security Act authorizes funds to be appropriated from the general fund to match premiums payable and deposited in the Trust Fund. Section 1844 also outlines the ratio for the match and the method to make the trust funds whole if insufficient funds are available in the appropriation to match all SMI premiums received in the fiscal year. The appropriated amount is an estimate calculated annually by CMS' Office of the Actuary (OACT) and can be insufficient in any particular fiscal year. In FY 2001, the estimate was insufficient and the matching ceased prior to the close of the fiscal year. Subsequently, OACT has valued the unmatched amount as $1,592 million. When this occurs, Section 1844 allows for a reimbursement to be made to the SMI Trust Fund from the Payments to the Health Care Trust Funds appropriation enacted for the following year. Consequently, CMS has recorded a $1,592 million anticipated appropriation in FY 2001 for the amount of the unmatched SMI premiums. Although the actual transfer of funds will occur in FY 2002, CMS has reported the $1,592 million as revenues earned in FY 2001.

In addition, CMS has recorded in the Payments to the Health Care Trust Funds appropriation a liability of $1,592 million to SMI for the unmatched SMI premiums. For reporting purposes, this liability appears under the CMS SMI Other Liabilities on the Consolidating Balance Sheet in the Supplementary Section.

In April 2001, the transfer of the quarterly tax adjustment from the Old Age Survivors and Disability Insurance (OASDI) to the Hospital Insurance (HI) program was understated by $2,630 million as a result of a Treasury clerical error in the warrant process. Public Law 103-66, Section 13215 Social Security and Tier I Railroad Retirement Benefits authorizes funds to be appropriated from the general fund equal to the increase in tax liabilities on OASDI beneficiaries and to be transferred to HI. CMS has recorded in the Payments to the Health Care Trust Funds appropriation a receivable for $2,630 million and an offsetting liability of$2,630 million to HI as a result of Treasury's error. Although the actual transfer of funds will occur in FY 2002, CMS has reported the $2,630 as Transfers-in and-out on the Statement of Changes in Net Position. Treasury is processing an appropriate remedy for the lost HI interest earnings.

Note 11. Accounts Payable

Major categories of HHS' accounts payable at September 30, 2001 and 2000 are summarized below.

	2001			2000		
	Intra-governmental	**With the Public**	**Total**	**Intra-governmental**	**With the Public**	**Total**
Covered by Budgetary Resources	$ 97	$643	$740	$122	$491	$613
Not Covered by Budgetary Resources	-	-	-	-	-	
Total OPDIV Accounts Payable, Combined	$ 97	$643	$740	$122	$491	$613
Less: Intra-OPDIV Eliminations	(48)	-	(48)	(21)	-	(21)
Total OPDIV Accounts Payable Consolidated	**$ 49**	**$643**	**$692**	**$101**	**$491**	**$592**
Less: Inter-OPDIV Eliminations	(19)	-	(19)	(43)	-	(43)
Total HHS Accounts Payable Consolidated	**$ 30**	**$643**	**$673**	**$ 58**	**$491**	**$549**

Note 12. Entitlement Benefits Due and Payable

Entitlement Benefits Due and Payable represents benefits due and payable to the public from entitlement programs enacted by law. In HHS the largest entitlement programs, which comprise the bulk of HHS entitlement spending, are Medicare and Medicaid, which are managed by CMS.

Following is a summary of Entitlement Benefits Due and Payable at September 30, 2001 and 2000.

	2001			2000		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
Medicare	$ 27,081	$ -	$ 27,081	$ 24,185	$ -	$ 24,185
Medicaid	5,581	7,779	13,360	12,331	-	12,331
Other	-	-	-	6	-	6
Totals	**$ 32,662**	**$ 7,779**	**$ 40,441**	**$ 36,522**	**$ -**	**$ 36,522**

Note 13. Environmental and Disposal Costs

Environmental and Disposal Costs are the costs of removing, containing, and or disposing of, 1) hazardous waste from property, or 2) material and or property that consists of hazardous waste at a permanent or temporary closure or shutdown of associated PP & E.

Following is a summary of HHS' Environmental and Disposal Costs at September 30, 2001 and 2000.

	Intragovernmental			With The Public		
At September 30, 2001:	**Liabilities Covered by Budgetary Resources**	**Liabilities Not Covered by Budgetary Resources**	**Total**	**Liabilities Covered by Budgetary Resources**	**Liabilities Not Covered by Budgetary Resources**	**Total**
FDA	$ 1	$ 2	$ 3	$ -	$ 2	$ 2
NIH	-	-	-	-	11	11
Combined OPDIV Totals	**$ 1**	**$ 2**	**$ 3**	**$ -**	**$13**	**$13**
Less: Intra-OPDIV Eliminations	-	-	-	-	-	-
Consolidated OPDIV Totals	**$ 1**	**$ 2**	**$ 3**	**$ -**	**$13**	**$13**
Less: Inter-OPDIV Eliminations	-	-	-	-	-	-
Consolidated HHS Totals	**$ 1**	**$ 2**	**$ 3**	**$ -**	**$13**	**$13**
At September 30, 2000:						
FDA	$ 1	$ 2	$ 3	$ 1	$ 2	$ 3
NIH	-	-	-	-	9	9
Combined OPDIV Totals	**$ 1**	**$ 2**	**$ 3**	**$ 1**	**$11**	**$12**
Less: Intra-OPDIV Eliminations	-	-	-	-	-	-
Consolidated OPDIV Totals	**$ 1**	**$ 2**	**$ 3**	**$ 1**	**$11**	**$12**
Less: Inter-OPDIV Eliminations	-	-	-	-	-	-
Consolidated HHS Totals	**$ 1**	**$ 2**	**$ 3**	**$ 1**	**$11**	**$12**

Note 14. Loan Guarantees

HHS' loan guarantees are with HRSA's Health Education Assistance Loans (HEAL) program. The liability for loan guarantees is equal to the amount of defaulted guaranteed loans.

	2001			2000		
Loan Programs	Defaulted Loans Guaranteed	Interest Payable	Liability for Loan Guarantees	Defaulted Loans Guaranteed	Interest Payable	Liability for Loan Guarantees
HEAL Loans (HRSA)						
Pre-1992 Guarantees	$ 30	$ -	$ 30	$ 28	$ -	$ 28
Post-1991 Guarantees	321	-	321	306	-	306
Subtotal	**$351**	**$ -**	**$351**	**$334**	**$ -**	**$334**
Other						
Pre-1992 Guarantees	-	-	-	-	-	-
Post-1991 Guarantees	-	-	-	4	-	4
Total	**$351**	**$ -**	**$351**	**$338**	**$ -**	**$338**

In the FY 2000 HHS Accountability Report, the "Other" category of loan guarantees valued at $4 million was erroneously reported as "Pre-1992 guarantees," instead of "Post-1991 guarantees." It is correctly classified in this year's report.

Note 15. Federal Employee and Veterans' Benefits

HHS' Federal Employee and Veterans' Benefits at September 30, 2001 and 2000 are summarized below.

With the Public	2001	2000
Liabilities Not Covered by Budgetary Resources		
PHS Commissioned Corp Pension Liability	$ 5,664	$ 4,942
PHS Commissioned Corp Post-retirement Health Benefits	1,545	540
Workers' Compensation Benefits (Actuarial FECA Liability)	292	264
Total, Federal Employee and Veterans' Benefits	**$ 7,501**	**$ 5,746**

PHS Commissioned Corps Pension: HHS administers the Public Health Service (PHS) Commissioned Corps Retirement System for approximately 5,589 active duty officers and 4,501 retiree annuitants or survivors. Authorized by Public Law 78-410, it is a defined benefit plan and is noncontributory. The plan does not have accumulated assets, funding is provided entirely on a pay as you go basis by Congressional appropriations. Administrative costs are borne by the plan. The plan provides pension payments to those eligible and a post-retirement medical benefits program. At September 30, 2001, the actuarial present value of accumulated plan pension benefits was $7.2 billion of which $501 million was nonvested.

The liability of the PHS medical benefits program was initially presented on the FY 2000 financial statements. At that time, a $529 million adjustment was booked by the PSC as a prior period adjustment to report the beginning actuarial liability for medical benefits reported for PHS Commissioned Corp Officers. As of September 30, 2001, the liability was actuarially determined to be $1,545 million, and as of September 30, 2000 it was $540 million.

Significant assumptions used by the actuary in its reports on the pension and medical programs as of September 30, 2001, were as follows: interest on federal securities of 6.25 percent, annual basic pay scale increase of 3.5 percent, and annual inflation of 3 percent. Withdrawal and retirement rates are based on the historical trends of officers in the PHS retirement system. The Aggregate Entry Age Normal actuarial cost method is used for both programs in the determination of their liabilities.

Workers' Compensation Benefits: The actuarial liability for future workers' compensation benefits includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payment related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the OMB's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting in FY 2001 and FY 2000 appear at right:

FY 2001	FY 2000
5.21% in Year 1	6.15% in Year 1
5.21% in Year 2 and Thereafter	6.28% in Year 2
	6.30% in Year 3 and Thereafter

FY	COLA	CPIM
2001	3.33%	4.44%
2002	3.00%	4.15%
2003	2.56%	4.09%
2004	2.50%	4.09%
2005+	2.50%	4.09%

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year dollars. The compensation COLAs and CPIMs used in projections are displayed at left as shown at left as follows:

Both the PHS Commissioned Corps Pension Workers' Compensation Benefits are liabilities not covered by budgetary resources.

Note 16. Accrued Payroll and Benefits

HHS' Accrued Payroll and Benefits at September 30, 2001 and 2000 are summarized below.

	Intragovernmental			With The Public		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
At September 30, 2001:						
Accrued Payroll and Leave	$ -	$ -	$ -	$335	$334	$669
Payroll Withholding	47	-	47	43	-	43
Accrued Workers Compensation (including FECA)	3	16	19	-	-	-
Liability for Pension and Insurance Benefits for Administering Agencies (PHS)	-	-	-	-	-	-
Other	-	1	1	-	1	1
Combined OPDIV Totals	**$50**	**$17**	**$67**	**$378**	**$335**	**$713**
Less: Intra-OPDIV Eliminations	-	-	-	-	-	-
Consolidated OPDIV Totals	**$50**	**$17**	**$67**	**$378**	**$335**	**$713**
Less: Inter-OPDIV Eliminations	-	-	-	-	-	-
Consolidated HHS Totals	**$50**	**$17**	**$67**	**$378**	**$335**	**$713**
At September 30, 2000:						
Accrued Payroll and Leave	$ -	$ -	$ -	$301	$311	$612
Payroll Withholding	42	-	42	36	-	36
Accrued Workers Compensation (including FECA)	-	15	15	17	-	17
Liability for Pension and Insurance Benefits for Administering Agencies (PHS)	-	-	-	11	-	11
Other	-	(2)	(2)	-	-	-
Combined OPDIV Totals	**$42**	**$13**	**$55**	**$365**	**$311**	**$676**
Less: Intra-OPDIV Eliminations	-	-	-	-	-	-
Consolidated OPDIV Totals	$42	$13	$55	$365	$311	$676
Less: Inter-OPDIV Eliminations	-	-	-	-	-	-
Consolidated HHS Totals	**$42**	**$13**	**$55**	**$365**	**$311**	**$676**

Note 17. Other Liabilities

HHS' other liabilities at September 30, 2001 and 2000 are summarized below.

	Intragovernmental			With The Public		
	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total	Liabilities Covered by Budgetary Resources	Liabilities Not Covered by Budgetary Resources	Total
At September 30, 2001:						
Advances from Others	$ -	$ -	$ -	$ -	$ -	$ -
Deferred Revenue	205	187	392	226	29	255
Liabilities for Deposit Funds, Clearing Accounts and Undeposited Collections	15	-	15	38	-	38
Contingent Liabilities	-	-	-	6	-	6
Capital Lease Liability	-	22	22	6	1	7
Custodial Liabilities	-	345	345	-	50	50
Vaccine Injury Compensation Program	-	-	-	-	327	327
Other	4,714	-	4,714	92	-	92
Combined OPDIV Totals	**$4,934**	**$ 554**	**$5,488**	**$ 368**	**$ 407**	**$ 775**
Less: Intra-OPDIV Eliminations	(4,222)	(187)	(4,409)	-	-	-
Consolidated OPDIV Totals	**$ 712**	**$ 367**	**$1,079**	**$ 368**	**$ 407**	**$ 775**
Less: Inter-OPDIV Eliminations	(53)	-	(53)	-	-	-
Consolidated HHS Totals	**$ 659**	**$ 367**	**$1,026**	**$ 368**	**$ 407**	**$ 775**
At September 30, 2000:						
Advances from Others	$ 112	$ -	$ 112	$ 5	$ -	$ 5
Deferred Revenue	183	89	272	180	21	201
Liabilities for Deposit Funds, Clearing Accounts and Undeposited Collections	-	-	-	34	-	34
Contingent Liabilities	-	-	-	28	1	29
Capital Lease Liability	-	22	22	6	1	7
Custodial Liabilities	-	264	264	-	1	1
Vaccine Injury Compensation Program	-	-	-	268	-	268
Other	174	-	174	74	-	74
Combined OPDIV Totals	**$ 469**	**$ 375**	**$ 844**	**$ 595**	**$ 24**	**$ 619**
Less: Intra-OPDIV Eliminations	-	(89)	(89)	-	-	-
Consolidated OPDIV Totals	**$ 469**	**$ 286**	**$ 755**	**$ 595**	**$ 24**	**$ 619**
Less: Inter-OPDIV Eliminations	(161)	-	(161)	-	-	-
Consolidated HHS Totals	**$ 308**	**$ 286**	**$ 594**	**$ 595**	**$ 24**	**$ 619**

Deferred Revenue of $392 million is for the provision of goods and services. The Vaccine Injury Compensation Program (VICP), administered by HRSA, provides compensation for vaccine-related injury or death. The VICP liability of $327 million represents the estimated future payment value of injury claims outstanding for VICP as of September 30, 2001. Other liability categories are described in Note 1, Significant Accounting Policies.

Of the $4,714 million in "Other" reported in FY 2001, $4,707 million was reported by CMS shown at right as follows at right:

OASDI Liability (HI)[1]	$ 2,630
SMI Unmatched Premiums	1,592
FICA Tax (HI)	200
SECA Tax (HI)	253
Other	32
Total	$ 4,707

[1]For explanation of OASDI liability and SMI unmatched premiums, see discussion in Note 10, "Other Assets."

Note 18. Net Position

Net position is the difference between assets and liabilities. The section contains two line items: Unexpended Appropriations, including unobligated appropriations and undelivered orders, and Cumulative Results of Operations. Unobligated appropriations are either available for obligation or not available (permanently or temporarily) pursuant to a specific provision in law. Undelivered orders represents appropriations obligated (i.e., legally reserved) for the amount of goods or services ordered but not yet received. Cumulative results of operations represents the net difference between 1) expenses and losses and 2) financing sources, including appropriated capital used, and revenues and gains since the inception of the activity.

Following is a summary of Net Position as of September 30, 2001 and 2000.

	2001					2000
	Trust Funds	Revolving Funds	Appropriated & Other Funds	Inter-OPDIV Eliminations	Totals	Totals
Unexpended Appropriations:						
Unobligated						
Available	$ -	$ -	$ 1,336	$ -	$ 1,336	$ 1,631
Unavailable	-	-	8,282	-	8,282	10,970
Undelivered Orders	-	-	60,433	-	60,433	56,334
Subtotals	**$ -**	**$ -**	**$ 70,051**	**$ -**	**$ 70,051**	**$ 68,935**
Cumulative Results/Operations	225,490	810	(5,798)	(10)	220,492	196,745
Net Position	**$225,490**	**$ 810**	**$ 64,253**	**($10)**	**$290,543**	**$265,680**

Amounts not considered Revolving Funds or Trust Funds are reported in the Appropriated & Other Funds column.

Note 19. Leases

Capital Leases: HHS and it's OPDIVS have entered into various capital leases with Indian tribes and the General Services Administration (GSA) for office and warehouse space. Lease terms vary from one to twenty years. Capitalized assets acquired under capital lease agreements and their related liability are reported at the present value of the minimum lease payments.

Operating Leases: HHS and it's components also have commitments under various operating leases with private entities and GSA for office, laboratory spaces, and land. Leases with private entities have initial or remaining noncancelable lease terms from one to twenty years. GSA leases in general are cancelable within 120 days notice.

Following is a Summary of Net Assets under Capital Lease and future minimum lease payments at September 30, 2001 and 2000.

Table 1. Summary of Assets Under Capital Lease	2001	2000
Land and Building	$31	$31
Machinery and Equipment	1	1
Subtotal	**$32**	**$32**
Less: Accumulated Amortization	(7)	(6)
Assets Under Capital Lease	**$25**	**$26**

Table 2. Future Minimum Lease Payments	2001		2000	
	Capital Leases	**Operating Leases**	**Capital Leases**	**Operating Leases**
Year 1	$ 3	$ 186	$ 3	$ 185
Year 2	3	191	3	188
Year 3	3	196	3	192
Year 4	3	192	3	187
Year 5	3	194	3	190
Later Years	40	339	42	330
Total Minimum Lease Payments	**$55**	**$1,298**	**$57**	**$1,272**
Less Imputed Interest	(26)	-	(28)	-
Total Capital Lease Liability	**$29**	**$ -**	**$29**	**$ -**

Note 20. Consolidated Gross Cost and Exchange Revenue by Budget Functional Classification

HHS' consolidated gross cost and exchange revenue by budget functional classification for the fiscal years ended September 30, 2001 and 2000 are summarized below.

	2001							2000
	Education Training and Social Services	Health	Medicare	Income Security	Admin of Justice	Natural Resources and Environment	OPDIV Consolidated Totals	OPDIV Consolidated Totals
Intragovernmental								
Gross Cost	$ 80	$2,268	$306	$ 15	$ 1	$ 20	$2,690	$2,389
Less: Exchange Revenue	(7)	(1,175)	(1)	-	-	(11)	(1,194)	(989)
Net Cost Intragovernmental	$ 73	$1,093	$305	$ 15	$ 1	$ 9	$1,496	$1,400
With the Public								
Gross Cost	$ 16,725	$168,872	$242,801	$ 27,739	$ 94	$ 66	$456,297	$407,145
Less: Exchange Revenue	-	(1,063)	(23,749)	-	-	-	(24,812)	(23,059)
Net Cost-With the Public	$ 16,725	$167,809	$219,052	$ 27,739	$ 94	$ 66	$431,485	$384,086
Totals								
Gross Cost	$ 16,805	$171,140	$243,107	$ 27,754	$ 95	$ 86	$458,987	$409,534
Less: Exchange Revenue	(7)	(2,238)	(23,750)	-	-	(11)	(26,006)	(24,048)
Net Cost of Operations	$ 16,798	$168,902	$219,357	$ 27,754	$ 95	$ 75	$432,981	$385,486

Note 21. Prior Period Adjustments

Prior period adjustments are included in the calculation of the net change in cumulative results of operations to correct errors and accounting changes with retroactive effect.

Following is a summary of the prior period adjustments as of September 30, 2001 and 2000.

Increases (Decreases) to Equity	2001	2000
Correction of Errors	($32)	($546)
Change in Accounting Principles	6	15
Adjustments to Beginning Net Position	(458)	(183)
Total	**($484)**	**($714)**

Adjustments to Beginning Net Position represent FY 1999 and FY 2000 audit adjustments booked by OPDIVs after the HHS audit deadlines of March 1, 2000 and 2001, respectively, as well as an additional net position adjustment related to prior year intra-HHS eliminations. These adjustments are not included in the OPDIV statement figures used to compile the Department-wide figures. Therefore, the Department must enter an adjustment to Beginning Net Position to reflect the Department's true beginning net position.

The large decrease in the Correction of Errors component of prior period adjustments is the result of PSC reporting a one-time adjustment of $529 million to actuarial liability for PHS Commissioned Corp Post-retirement Health Benefits in FY 2000. See Note 15, Federal Employee & Veterans' Benefits for a more detailed explanation of the prior period adjustment made in FY 2000.

Note 22. Custodial Activity

ACF receives monies from the Internal Revenue Service for outlay to the states for Child Support. These monies represent delinquent child support payments withheld from Internal Revenue tax refunds. Receipts are transferred to appropriation 75X6234 to cover outlays. During FY 2001, receipts amounted to $1,598 million and outlays amounted to $1,562 million.

Note 23. Medicare Benefit Payments

Medicare Claims Estimated Improper Payments

Federal government audits require the review of programs for compliance with federal laws and regulations. Accordingly, the OIG reviewed a statistically valid sample of CMS' Medicare claims to determine that claims were paid properly by Medicare contractors, and that services were actually performed and were medically necessary. Medicare, like other insurers, makes payments based on a standard claims form. The internal claims process involves reviewing claims as billed and paying the correct amount for the services rendered. Based on the OIG statistical sample, the point estimate of improper Medicare benefit payments made during FY 2001 was $12.1 billion or about 6.3 percent of the $191.8 billion in processed fee-for-service payments reported by CMS. The estimated range of the improper payments at 95 percent confidence level is $7.2 billion to $16.9 billion, or about 3.8 percent to 8.9 percent, respectively. The majority of the errors fell into four broad categories: lack of medical necessity, insufficient or no documentation, incorrect coding, and noncovered/unallowable services.

Cost Report Settlement Process

The cost report settlement process represents the value of final outlays to providers based on fiscal intermediary (FI) audits, reviews and final settlements of Medicare cost reports. Institutional providers are required to file Medicare cost reports. For providers paid under the Prospective Payment System (PPS), the cost report includes costs that are not covered under PPS, such as disproportionate share hospital payments, indirect medical education payments, and other indirect costs. For providers paid on a cost basis, the cost report represents the total costs incurred by the provider for medical services to patients and reflects the final distribution of these costs to the Medicare program.

In FY 2001, 34,118 cost reports totaling $92.7 billion were reviewed. Approximately $74.4 billion represented inpatient claims to PPS providers. These inpatient claims were included in prior year claims testing that resulted in the determination of the Medicare claims improper payment error rate. The cost report settlements, therefore, focused on the remaining non-PPS balance of about $18.3 billion.

Following is a summary of cost reports reviewed and the amount of costs claimed and disallowed at September 30, 2001 and 2000.

Cost Report Summary	2001			2000		
	Desk Reviews and Other	Audits	Total	Desk Reviews and Other	Audits	Total
Cost Reports Reviewed	30,393	3,725	34,118	28,923	5,653	34,576
Costs Claimed	$ 36,810	$ 55,891	$ 92,701	$ 40,713	$ 63,027	$103,740
Disallowed	$ 407	$ 350	$ 757	$ 857	$ 1,449	$ 2,306

The $757 million disallowed represents 4 percent of the $18.3 billion non-PPS balance. Based on the current disallowance rates, if the full-scope audits were expanded to include the entire universe, the total amount disallowed would range from $757 million to $1.3 billion. Therefore, by limiting the amount of full-scope audits that were conducted, CMS may have overpaid providers by as much as $493 million.

Potential Liability

The CMS routinely processes and settles cost reports and payment issues for institutional providers and healthcare insurers. As part of this process, some providers/insurers have filed suits challenging the amount of reimbursement to which they claim entitlement. The CMS cannot reasonably estimate the probability of the providers successfully winning their suits or the exact amount of the potential loss to the Medicare trust funds.

In the opinion of management, the resolution of these matters could potentially have a material impact on the results of operations and financial condition of CMS.

Note 24. Federal Matching Contribution

SMI benefits and administrative expenses are financed by monthly premiums paid by Medicare beneficiaries and are matched by the federal government through the general fund appropriation, Payments to the Health Care Trust Funds. Section 1844 of the Social Security Act authorizes appropriated funds to match SMI premiums collected, and outlines the ratio for the match as well as the method to make the trust funds whole if insufficient funds are available in the appropriation to match all premiums received in the fiscal year. The monthly SMI premium per beneficiary was $45.50 from October 2000 through December 2000 and $50 from January 2001 through September 2001. Premiums collected from beneficiaries totaled $22.3 billion in FY 2001 and were matched by a $71.4 billion contribution from the Federal government.

Note 25. Contingencies

The Department and its components are parties to various administrative proceedings, legal actions, and claims brought by or against it. These contingencies arise in the normal course of operations and their ultimate disposition is unknown.Management, in consultation with legal counsel, has determined that it is reasonably possible that certain claims may result in an adverse outcome to the Department. However, an estimate of the range of possible liability cannot be determined. Based on information currently available, it is management's opinion that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the financial statements of the Department.

Contingencies related to Medicare cost reports and benefit payments are discussed in Note 23, Medicare Benefit Payments.